New Jersey Department of Education
Division of Early Childhood Education
DOE-Funded Preschool Program

PRIVATE PROVIDER EXPENDITURE GUIDANCE
SCHOOL YEAR 2008-09

The following expenditure guidance must be used by providers to document and justify all expenditures relating to the Department of Education (DOE)-funded preschool program. As per *New Jersey Administrative Code 6A:13A*, the district board of education shall monitor the expenditures of each contracted private provider and local Head Start agency at least quarterly and shall recoup any unexpended or misspent funds based on the quarterly expenditure reports, enrollment records and monthly payments made by the school district. Each provider shall submit to the district board of education a quarterly report of actual, approvable, reasonable and customary expenditures with supporting documentation and receipts.

The quarterly report shall include expenditures for all approved budget lines for the school year including all approved salaries, benefits, payroll taxes, substitute stipends, classroom materials and supplies, start-up classroom materials/supplies and technology, if applicable, field trips and transportation, space costs, food costs, and all allowable administrative and indirect costs as itemized under the Administrative Support and Indirect Costs section of this document and shall be signed and certified by an officer of the corporation. For providers that chose the line-item budget process, all expenditures must be in strict accordance with the budget approved by the district board of education and the DOE. For providers that chose the presumptive budget process, all expenditures must be within allowable expenditure categories.

For providers that chose the presumptive budget process, the "2008-09 Private Provider One-Year PLANNING Budget Worksheet" must be completed by all private providers and filed with the district prior to the start of the fiscal year. The planning budget worksheet will serve as the basis for the provider's 2008-09 quarterly reports. While providers need not be held to the amounts indicated in their planning document, districts may require justification for expenditures that over- or under-expend a line in the planning budget worksheet. Providers will be reimbursed only for costs that are allowable and documented through quarterly expenditure reports. Unexpended funds will be recouped by the district.

SALARIES

Teachers

Expenditures for teacher salaries must be made in strict accordance with Schedule A.

Teacher Assistants and Floating Teacher Assistants

Expenditures for teacher salaries must be made in strict accordance with Schedule A.

Substitute Teachers and Substitute Assistant Teachers

Compensation rates and the number of days allowable for substitute teachers and assistants must be the same as those allowed for in-district teachers and standardized across all contracting providers in the district. Providers may hire a full-time employee to serve as a permanent substitute. This employee must hold a substitute credential. Providers may expense funding budgeted for teacher and/or assistant teacher substitute days for floating teacher assistants in the event of their absence.

Family Workers

Family worker salaries and benefits should be expensed as a 12-month position with a 40-hour workweek. Funds expended for family workers should be prorated to take Department of Human Services (DHS) funding into account. DOE funding is intended to support family worker salaries for the school calendar year.

Food Workers

Cook and cook's assistant salaries and benefits should be expensed as 12-month positions. Funds expended for these positions should be prorated to take into account DHS funding and/or programs that are not funded by the DOE, where applicable.

Preschool Center Directors

Expenditures for a director's salary must be in line with the director's salary scale and Schedule A, unless otherwise approved by the district. Expenditures must be prorated to appropriately account for costs covered by DHS and/or programs that are not funded by the DOE, where applicable.

Non-Allowable Salary Costs

1. Salaries (or portions of salaries) for any staff performing duties related to children/classrooms not funded by the DOE.

2. Salaries that do not relate back to the provider's Schedule A;

3. Salary of staff member for time not expended and/or services not performed;

4. The cost of a salary when the salary is determined in an arbitrary or capricious manner rather than on an existing written uniform policy based on district salary scales for teaching staff or years of service or education for non-teaching staff;

5. Salary for a retired employee;

6. Salary for a head teacher;

7. Salary of professional staff member, consultant or subcontractor including a member of a management company who is not certified but is functioning in a position requiring certification in accordance with *New Jersey Administrative Code 6A:9;*

8. Salary of a staff member which is not properly supported by the employee time record;

9. Salary or any payment made to a member(s) of the board of directors/trustees for services performed in their capacity as a member of the board of director/trustees;

10. Salary for a current or retired member of the board of directors/trustees;

11. Cost of employee severance pay;

12. Cost of a buyout of an employee contract;

13. Cost of a salary or consultant fee paid to a full-time employee or consultant for performing more than one administrative function in the center;

14. Cost of a salary increase paid after the start of the fiscal year not in accordance with the following:

> i. The increase is due to a staff member(s) promotion that results in additional job responsibilities; and
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> ii. The increase has been approved by the district and the department after review of a formal written request to the Division of Early Childhood Education documenting the facts necessitating the increase, if the above case is not met;

15. Salary of a non-instructional staff person that increases by more than 10 percent from one fiscal year to the next (unless due to approved change in position that results in additional job responsibilities); and

16. Cost of a salary for any positions not listed on Schedule A.

BENEFITS and PENSIONS

All benefit expenditures must be based on a written, uniform policy based on an equitable standard of distribution, such as years of service or education. Providers must obtain waivers from any staff member choosing to opt out of benefit coverage. Waivers must be signed annually, and must indicate proof of insurance from another source.

Teaching Staff

Benefit package expenditures for teachers and teacher assistants may include health benefits (including medical, vision, prescription, and dental coverage), life insurance and pension contributions. Group insurance, social security contributions, unemployment contributions, and disability contributions should be expensed as payroll taxes and should not be included in the average benefit cost. Providers should not charge a co-pay for benefits comparable to the district for teachers or teacher assistants and must follow district policies regarding benefits for teaching staff. If district policy allows teaching staff to choose cash in lieu of benefits, providers may choose to allow this option for their teaching staff. Providers must follow district policy as to the maximum amount of benefit allowed and must be able to document that any employee choosing this option has benefit coverage through another source.

Non-Teaching Staff

Providers are expected to offer benefits of up to 15 percent of an individual's approved salary for each individual position. Average benefit expenditures for non-teaching positions may not exceed the district's average for teacher benefits.

Non-Allowable Benefit and Pension Costs

1. The cost of benefits that do not relate back to the provider's written policy indicating the percent that will be put towards retirement for all employees;

2. The fringe benefits of a staff member for time not expended and/or services not performed;

3. The cost of fringe benefits which are based on a non-allowable salary;

4. Fringe benefits when the benefits are determined in an arbitrary or capricious manner rather than on an existing written uniform policy based on an equitable standard of distribution, such as years of service or education;

5. Pension costs that are:

    i. Not in conformance with the Employee Retirement Income Security Act of 1974, P.L. 93-406, and its successor legislation and that do not exceed costs allowed by the Internal Revenue Service. See the following for more information: http://www.dol.gov/dol/topic/health-plans/erisa.htm ;

    ii. For a non-qualified pension plan(s);

iii. For a defined contribution plan in excess of the lesser of 25 percent of the employee's gross salary or $30,000 and subsequent changes made to the IRS maximum percentage and maximum dollar amount; and

iv. For a defined benefit plan in excess of an amount, by employee, which would allow the defined plan to provide a benefit in excess of the percentage of the employee’s number of years of service divided by 55 times the highest three-year average salary and at an age before 55;

6. Cost of a pension plan and/or medical benefits for current or retired members of the board of directors/trustees;

7. Cost of medical benefits for retired employees;

8. Transfers to employees’ retirement plan that are not in line with the written policy supplied to the district at the start of the fiscal year.

9. Head teacher benefits and employer payroll taxes;

10. Other administrative personnel benefits and employer payroll taxes;

11. The benefits of a professional staff member, consultant or subcontractor including a member of a management company who is not certified but is functioning in a position requiring certification in accordance with *New Jersey Administrative Code 6A:9;*

12. Benefits of a staff member which is not properly supported by the employee time record;

13. Benefits or any payment made to a member(s) of the board of directors/trustees for services performed in their capacity as a member of the board of director/trustees;

14. Cost of employee severance pay;

15. Cost of benefits paid to a full-time employee or consultant for performing more than one administrative function in the center;

16. Cost of a benefit increase paid after the start of the fiscal year not in accordance with the following:

i. The increase is due to a staff member(s) promotion that results in additional job responsibilities; and

ii. The increase has been approved by the district and the department after review of a formal written request to the Division of Early Childhood

Education documenting the facts necessitating the increase, if the above case is not met;

17. Cost of benefits for any positions not listed on Schedule A.

EMPLOYER PAYROLL TAXES (all employees)

Employer payroll tax expenses for all employees may include social security, Medicare, unemployment, and disability taxes. Employer payroll tax expenses for directors, food workers, and family workers must be prorated to appropriately account for costs covered by DHS and/or programs not funded by the DOE, where applicable. Providers may combine payroll tax line items on quarterly reports and can be reimbursed based on their total approved amount for payroll taxes.

NON-SALARY EDUCATIONAL COSTS

Classroom Materials and Supplies

Expenditures must only consist of instructional materials and supplies to be used for the DOE-funded preschool program, and may include any consumable materials and supplies for other staff that work directly with children in the classroom. Replacement, repair, and upgrade of classroom furniture are also allowable expenses. Funds expensed for classroom materials and supplies do not have to be spent evenly for each DOE-funded classroom, but can be used for classroom materials and supplies across the provider's DOE-funded classrooms as needed. Classroom materials and supplies funding is not meant to support the purchase of playground surfacing and/or equipment.

Districts may require providers to supply an inventory of each DOE-funded classroom for each quarter to demonstrate that appropriate materials and supplies are present in each classroom. Districts may set a date by which funds for materials and supplies must be expended. Funds spent on office materials and supplies must be expensed in the appropriate line as indirect costs.

Dedicated Preschool Classroom Technology

Allowable expenses include the purchase, upgrade, and repair of computers, printers, software, and other educational technology in DOE-funded classrooms. Funds expensed for classroom technology do not have to be spent evenly for each DOE-funded classroom, but can be used for classroom technology across the provider's DOE-funded classrooms as needed.

Districts may require providers to supply an inventory of each DOE-funded classroom to demonstrate that appropriate preschool classroom technology is present in each classroom. Districts may also require providers to set up a schedule for the replacement/repair of preschool classroom technology equipment.

Startup Classroom Supplements

Startup expenses must be for purchase of the essential supplies, furniture, technology, etc. needed to set up a new classroom. Startup classrooms are defined as additional contracted classrooms for 2008-09 that are not currently equipped for a preschool program and are not replacing currently equipped classrooms.

Field Trips with Transportation

Many appropriate field trips do not require fees or transportation. Field trips must be educationally based and consistent with the district's approved preschool curriculum. Each community provider must submit a field trip plan to their contracting district as part of the budget submission. The plan must detail each trip by destination and cost, and providers must expense funds for field trips in accordance with their approved plan.

Food-Related Costs

A provider may expense food-related costs only if the center participates in the Child and Adult Care Food Program (CACFP) or the National School Lunch Program (NSLP) and School Breakfast Programs (SBP).

No funding may be expensed retroactively to cover any food-related costs prior to a center's participation in CACFP or the NSLP/SBP. The provider must participate in their respective program for breakfast, lunch, and snack. All food-related administrative and/or indirect costs must be recorded as administrative/indirect costs and not included as food costs.

If a provider is denied application to their respective program for fiscal, administrative, or other mismanagement reasons, the provider must provide food at their own expense (not chargeable to DOE).

FACILITIES COSTS

All space costs must be prorated to take into account DHS funding and programs not funded by the DOE, where applicable. Provider must be able to relate all expenditures for space costs back to actual documentation.

For Providers who Own their Facility

Providers who own their own facility may expense up to the fair market value of the space in the center used for DOE-funded preschool. Actual expenses must be based on mortgage costs, straight-line depreciation, mortgage interest, real estate taxes, or property insurance. Documentation must be used to support all expenses.

Expenditures are allowable only for long-term, first mortgages of at least 15 years, or long-term mortgages for renovations of space related to the DOE-funded program. The payment schedule for an allowable mortgage expense must tie back to the original purchase amount of the space. Expenses that exceed the market value of the space are not allowable.

Mortgage refinancing is allowable only to obtain a lower interest rate for the same principal amount. Refinancing costs are not chargeable to the DOE-funded program and the provider must make closing materials available for inspection upon request.

For Providers who Lease their Facility

Providers who lease their facility may submit expenses only up to the actual amount of their lease. Providers may not expense funds on buildings and grounds maintenance when the lease states that such costs are included in the rental agreement.

Rental agreements should be negotiated for multiple years whenever possible. Related-party leases may not increase by more than the cost-of-living for any given fiscal year.

Non-allowable Rent/Mortgage/Other Space Costs include the following:

1. Costs related to transactions between related parties in which one party to the transaction is able to control or substantially influence the actions of the other. Such transactions are defined by the relationship of the parties and include, but are not limited to, those between divisions of an institution; institutions or organizations under common control through common officers, directors, or members; and an institution and a director, trustee, officer, or key employee of the institution or his or her immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. Such costs shall include, but are not limited to:

    i. Rental costs for buildings and equipment in excess of the actual allocated costs of ownership (such as straight line depreciation, mortgage interest, real estate taxes, property insurance and maintenance costs) incurred by the related property owner including a 2.5 percent return calculated on the actual costs of ownership incurred by the related party. The lease agreement shall include a list of anticipated costs to be incurred by the property owner, signed by the property owner and notarized;

    ii. Rental costs under a sub-lease arrangement with a related party for buildings and equipment in excess of the actual allocated costs related to the lease (such as rent, lease commission expense and maintenance costs) incurred by the sub-lesser. Profit, return on investment or windfall of any kind shall not be included in the sub-rental cost. The sub-lease agreement shall include a list of anticipated costs to be incurred by the sub-lessor, signed by the sub-lesser and notarized;

iii. Cost of purchasing/leasing buildings, equipment or other goods from related parties in excess of the original cost to the related party, less depreciation calculated using the straight line method;

2. Cost of a less-than-arm's length/related party transaction when the related party does not provide documentation to support the actual costs of ownership to the district and/or Department when requested, and does not allow the district and/or Department access to such information for review and audit during normal business hours. Documentation to demonstrate allowable less-than-arm's length/related party transactions may include:

   i. The related parties' tax returns; and
   ii. The related parties' paid bills and canceled checks concerning the transaction;

3. Rental costs under sale and leaseback arrangements in excess of the amount that would be incurred had the organization continued to own the property;

4. Administrative fees associated with refinancing of mortgage;

5. The cost of maintaining an administrative office in a private home or other residence;

6. Depreciation that does not meet the requirement that fixed asset expenditures of $2,000 or more shall be capitalized and depreciated using the straight line method and a useful life consistent with current Federal tax law, except for real property which may be depreciated using a useful life of 15 years or the term of the original mortgage, whichever is greater, and depreciation on:

   i. Donated goods and assets;

   ii. That which is not based on estimated straight-line method; and

   iii. Automobiles;

7. Interest costs on loans other than mortgages;

8. Interest costs on long-term loans or mortgages when:

   i. The loan is used for other than financing of fixed assets;

   ii. The loan is not secured by the fixed asset being financed; and

iii. The interest costs are on the portion of the loan term, which exceeds the recovery period for depreciation of the fixed asset securing the loan;

9. Cost to purchase or rent in a related party transaction an administrative office or business office at a location other than at the center location.

ADMINISTRATIVE SUPPORT and INDIRECT COSTS

Providers must maintain verifiable, documented records of actual expenditures for administrative support and indirect costs and make such records available to the district, DOE, DHS, and auditors upon request. Records of all administrative support and indirect expenditures must be included in quarterly expenditure reports to the district, as required by *New Jersey Administrative Code 6A:13A*. Adjustments will be made to provider payments by the district based upon provider budget guidance, reasonable and customary costs, and verifiable documentation presented by the provider. With the exception of profit (if applicable), all administrative support and indirect expenditures must be related to the operation of the DOE-funded Preschool Program.

Only actual, documented expenses associated with the following categories are allowable. For providers that chose the line-item budget process, expenditures must be in line with their 2008-09 approved budget. All expenditures must be deemed reasonable and customary by the district.

Allowable Support Costs

- Clerical or other administrative support salaries;
- Clerical or other administrative support benefits;
- Janitor salary or services;
- Janitor benefits; and
- Employer payroll tax expenses for state-funded janitor, clerical, and other administrative support workers may include social security, Medicare, unemployment, and disability taxes but must be prorated to appropriately account for costs covered by DHS and/or programs not funded by DOE, where applicable. Workers' compensation should be expensed under the indirect cost line item: insurance.

Allowable Indirect Costs

- Office equipment and repair;
- Office materials and supplies;
- Paper supplies;
- Cleaning supplies;
- Food for meetings;
- Building/grounds maintenance and repair;
- Utilities;
- Telecommunications;

- Security equipment and/or security guard salary, benefits, and payroll taxes;
- Insurance. Expenditures for a workers compensation insurance policy should be classified as an insurance expense;
- Accounting;
- Payroll preparation;
- Advertising;
- Staff transportation;
- Playground equipment and surfacing; and

For-profit centers only:

- Profit, subject to a maximum of 2.5 percent of the subtotal of the center's state-funded educational program costs.

<u>Non-Allowable Administrative and Support Costs</u>

<u>Vehicle expenses</u>

1. The yearly cost of a lease for a vehicle;

2. Costs associated with travel out of state or for meetings/events not related to the DOE-funded preschool program;

3. Any cost associated with travel to and from the officer's or employee's home and the center or agency;

4. Any costs associated with a center-owned vehicle, leased vehicle or vehicle contained in a related party transaction;

5. All personal expenses, such as a personal travel expense or repair on a personal vehicle;

6. Personal use of a center-owned or leased vehicle which includes to/from work commutation; and

7. A business-incurred charge for a privately owned vehicle in excess of the mileage rate allowed by the United States Internal Revenue Service for automobile travel;

<u>Donations/Contributions</u>

1. Contributions, donations, awards and scholarships;

2. Goodwill; and

3. The cost of fund-raising, such as a financial campaign, an endowment drive or solicitation of a gift and bequest which is done to raise capital or obtain a contribution;

Investments

1. An investment expense associated with the purchase/sale of stock, securities, other investment instruments or other investments with the exception of those investments made within a retirement benefit plan that meets IRS regulations; and

2. A loss on an investment;

Other

1. For providers that chose the line-item budget process: an administrative support and indirect cost that would cause the total administrative support and indirect costs of the contracting private provider to exceed the 14 percent limit on such costs;

2. Indirect and direct costs associated with activities or enterprises unrelated to the DOE-funded preschool program;

3. An advertising cost in excess of $500 in centers serving 90 or fewer children or an advertising cost in excess of $1,000 in centers serving 180 or fewer children;

4. Any cost associated with public relations and lobbying including salaries and fringe benefits;

5. A loss incurred on the sale or exchange of fixed assets;

6. Entertainment expenses;

7. The cost of a fine or penalty which results from a violation of or failure by the center to comply with a Federal, state and/or local law or rule;

8. The cost of keyman insurance except where a term insurance policy is required by a lender as collateral for a loan;

9. The write-off of uncollected accounts receivable (bad debts) before three years has elapsed and before a reasonable effort has been made to collect such accounts receivable;

10. Payment of Federal, state and local taxes on income other than DOE-funded preschool funding;

11. Cost of the year-end audited financial statements prepared by an individual who is not an independent registered municipal accountant of New Jersey, or an independent certified public accountant of New Jersey, and who does not hold an uncancelled registration license as a public school accountant of New Jersey;

12. Costs for membership in civic, business, technical and professional organizations;

13. Cost found to be patently unreasonable by the Commissioner or his or her representative(s) or the independent auditor/accountant;

14. A payment of a bonus; and

15. Cost of a buyout of an employee contract.

SPECIAL REQUESTS

Providers that chose the line-item budget process may expend funds for particularized needs under the category of Special Requests. Special Requests must already be included in the provider's approved 2008-09 budget.

BUDGET TRANSFERS

For providers that chose the line-item budget process, in cases where certain lines are under or overspent, providers may request budget transfers between like categories within their approved budget. Transfers greater than ten percent require DOE approval in addition to district consent, with the following exception: an appropriate transfer up to and including $1,000 may be approved at the district level in cases where $1,000 exceeds ten percent of the budget line. Transfer requests will be reviewed by both the district and DOE to ensure compliance with budget guidance. Providers will not be approved to transfer funding out of the "DOE-funded Educational Program" section of their budget. Approved funding for teacher and teacher assistant benefits will not be approved for transfer anywhere within a provider's budget. The district may set a date past which budget transfer requests will no longer be accepted for the budget year and must notify providers of that date prior to the fourth quarter of the budget year. The DOE will not accept budget transfer requests submitted after June 30, 2008.